

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CHARLEVOIX TOWNSHIP HOSPITAL FINANCE	County CHARLEVOIX
Audit Date 12/31/04	Opinion Date 4/27/05	Date Accountant Report Submitted to State: 6/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

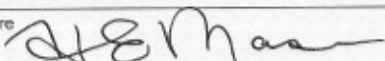
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MASON & KAMMERMAN, PC			
Street Address 110 PARK AVENUE	City CHARLEVOIX	State MI	ZIP 49720
Accountant Signature 		Date 6/22/05	

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY
CHARLEVOIX COUNTY, MICHIGAN

FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
for the year ended December 31, 2004

MASON & KAMMERMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHARLEVOIX, MICHIGAN

CONTENTS

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	2-3
BASIC FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	4
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-9
OTHER FINANCIAL INFORMATION:	
SCHEDULE OF INDEBTEDNESS - CHARLEVOIX NURSING HOME CORPORATION	10
SCHEDULE OF INDEBTEDNESS - CHARLEVOIX AREA HOSPITAL	11

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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April 27, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
Charlevoix Township Hospital Finance Authority:

We have audited the accompanying statement of net assets of the Charlevoix Township Hospital Finance Authority as of December 31, 2004, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charlevoix Township Hospital Finance Authority as of December 31, 2004, and changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Charlevoix Township Hospital Finance Authority has implemented a new financial reporting model, as required by the provision of GASB statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2005.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mason & Kammermann PC

Management's Discussion and Analysis

Overview of the Basic Financial Statements

The Charlevoix Township Hospital Finance Authority's (Authority) basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These are all reported using the accrual basis of accounting. As this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in the future years when prior year information is more readily available.

Financial Statements

The Statement of Net Assets presents the Authority's assets and liabilities, within the difference reported as net assets.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents cash flows from operations, financing and investing activities. Additionally, non-cash transactions that have an effect on the Authority's financial position are also presented.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The table below summarizes the Authority's net assets as of December 31, 2004:

Charlevoix Township Hospital Finance Authority

December 31, 2004

Assets	
Current	\$ 721,385
Other	<u>9,623,742</u>
Total assets	10,345,127
Liabilities	
Current portion of bonds payable	721,385
Bonds payable net of current portion, etc.	<u>9,623,742</u>
Total liabilities	10,345,127
Net Assets	
Restricted for debt service	<u>\$ -</u>

Management's Discussion and Analysis Cont'd:

At the end of the fiscal year, the Authority is reporting a zero balance for net assets restricted for debt service.

The results for the Authority as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which is summarized below:

Charlevoix Township Hospital Finance Authority

Year Ended December 31, 2004

Revenues	\$661,777
Expenses	<u>661,777</u>
Excess (deficiency) of revenues over expenses	-
Net assets - beginning of year	-
Net assets - end of year	<u>\$ -</u>

As shown above, the current year balance was zero. The Authority relies on loan payments from the Hospital to make the required bond payments. The Authority earns interest on these payments from the Nursing Home and Hospital until the bond payments are actually made. The Hospital is able to consider the interest retained by the Authority in determining its next required loan payment.

Economic Factors

The Charlevoix Township Hospital Finance Authority was incorporated for the purpose of acquiring, constructing, remodeling, enlarging, repairing, owning and leasing health care facilities. It was also incorporated to finance or refinance these activities and to lend money to a hospital for similar purposes. Currently, the Authority has two loans outstanding with Charlevoix Nursing Home and Charlevoix Area Hospital related to the Series 1993 and 2001 Bonds as explained in the notes to the financial statements. The Hospital and Nursing Home have been making its loan payments on a timely basis. The expectation is that these timely payments will continue to be made and the related bonds will be retired as intended.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY
STATEMENT OF NET ASSETS

as of December 31, 2004

ASSETS

CURRENT ASSETS:

Current portion of loan receivable:

Charlevoix Nursing Home Corporation	\$ 140,634
Charlevoix Area Hospital	<u>580,751</u>

Total current assets	721,385
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Loan receivable

Charlevoix Nursing Home Corporation (Note B)	\$1,339,303
Charlevoix Area Hospital (Note C)	<u>9,005,824</u>

Total loans receivable	10,345,127
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Less portion due within one year	<u>(721,385)</u>
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Total loans receivable long term	<u>9,623,742</u>
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Total assets	<u><u>\$ 10,345,127</u></u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES,

Current portion of long-term debt due within one year

Charlevoix Nursing Home Corporation	\$ 140,634
Charlevoix Area Hospital	<u>580,751</u>

Total current liabilities	721,385
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LONG-TERM DEBT:

Bonds payable:

Charlevoix Nursing Home Corporation (Note B)	\$ 1,339,303
Charlevoix Area Hospital (Note C)	<u>9,005,824</u>

Total bonds payable	10,345,127
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Less portion due within one year	<u>(721,385)</u>
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Total long-term debt	9,623,742
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NET ASSETS

Total liabilities and net assets	<u><u>\$ 10,345,127</u></u>
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The accompanying notes are a part of the financial statements.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES

for the year ended December 31, 2004

Revenues:

Payments received from Nursing Home to defray Series 1993 Bond interest expense (Note B)	\$ 81,026
Payments received from Hospital to defray Series 2001 Bond interest expense (Note C)	<u>580,751</u>
Total revenues	661,777

Expenses,

Bond interest expenses:

Charlevoix Nursing Home Corporation (Note B)	\$ 81,026
Charlevoix Area Hospital (Note C)	<u>580,751</u>
Total bond interest expenses	<u>661,777</u>

Excess Revenues over Expenses	-
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NET ASSETS, Beginning of year	<u>-</u>
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NET ASSETS, End of year	<u><u>\$ -</u></u>
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The accompanying notes are a part of the financial statements.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY

STATEMENT OF CASH FLOWS

for the year ended December 31, 2004

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Principal received on loans receivable	\$ 874,844
Reduction of long-term debt	<u>(874,844)</u>

Net cash provided by capital and related financing activities	-
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CASH AND CASH EQUIVALENTS, Beginning of year	<u>-</u>
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CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ -</u></u>
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There were no cash flows from operating activities as shown by the following reconciliation:

Excess of revenues over expenses	\$ -
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Adjustments to reconcile excess of revenues
over expenses to net cash from operating
activities:

Interest on loans receivable (reflected as capital and related financing activities)	661,777
Bond interest expense (reflected as capital and related financing activities)	<u>(661,777)</u>

Net cash flows provided by operating activities	<u><u>\$ -</u></u>
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The accompanying notes are a part of the financial statements.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2004

Note A - Summary of Significant Accounting Policies

The Charlevoix Township Hospital Finance Authority, a governmental finance authority, was created as a corporate instrumentality in 1993 by Charlevoix Township of Charlevoix County under the provisions of the Hospital Finance Authority Act, Act 38, Public Acts of Michigan, 1969, as amended. The Authority was incorporated for the purpose of acquiring, reconstructing, remodeling, enlarging, repairing, owning and leasing health care facilities. It was also incorporated to finance or refinance these activities and to lend money to a hospital for similar purposes.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

The financial statements of the Authority have been prepared on the accrual basis of accounting except for the recognition of interest income and expense as explained below:

- a. Loans receivable are carried at face value.
- b. The outstanding bonds payable are recorded as liabilities.
- c. Interest income is recorded when received. Interest expense associated with the bonds is recorded when cash is disbursed.

Note B - Bond Payable - Charlevoix Nursing Home Corporation

The Limited Obligation Revenue Bond (Charlevoix Nursing Home Corporation) principal and interest payments are due on the first day of each month in an amount sufficient to fully amortize the principal balance by June 1, 2013.

Under terms of the Loan Agreement between the Authority, Charlevoix Nursing Home Corporation and Fifth Third Bank of Petoskey, the Nursing Home has agreed to pay to the Bank at specified times amounts adequate to pay all debt service costs associated with the bond issue.

The Nursing Home has agreed to make such payments from its income available for debt service. Such income includes generally the excess of revenue, including investment income and gifts not restricted by donors, over expenses excluding depreciation, amortization, interest expense and certain extraordinary items. In addition, the Nursing Home has agreed to maintain its tax exempt status, continue to operate as a nursing home, to keep the nursing home facilities in good repair, and to limit incurrence of additional debt to specific amounts under certain conditions as defined in the agreement.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2004

Note C - Bond Payable - Charlevoix Area Hospital - Series 2001

The Limited Obligation Hospital Revenue and Refunding Bond, (Charlevoix Area Hospital Project), Series 2001 principal and interest are payable on the thirteenth day of each month until November 13, 2016 when the remaining principal and interest balance shall be due.

Under terms of the Loan Agreement between the Authority, Charlevoix Area Hospital and Citizens Bank of Charlevoix, Michigan, the Hospital has agreed to pay to the Bank at specified times amounts adequate to pay all debt service costs associated with the bond issue.

The Hospital has agreed to make such payments from its income available for debt service. Such income includes generally the excess of revenue, including investment income and gifts not restricted by donors, over expenses excluding depreciation, amortization, interest expense and certain extraordinary items.

In addition, the Hospital has agreed to maintain its tax exempt status, continue to operate as a hospital, to keep the hospital facilities in good repair, and to limit incurrence of additional debt to specific amounts under certain conditions as defined in the agreement.

The bond is not a general obligation of the Charlevoix Township Hospital Finance Authority. Further, it is not a debt of the Township of Charlevoix, nor has the Township pledged its full faith and credit for payment of the bond. The bond agreement written with an interest rate of 4.6 percent per annum through November 12, 2006. At that time and again on November 12, 2011, the rate shall be adjusted to equal 98 percent of the then current yield on U.S. Treasury Securities with five years remaining until maturity.

Each monthly installment of principal shall be calculated as that amount which would be payable for that numbered installment under a one hundred sixty five (165) month amortization schedule of even monthly payments comprising principal and interest, applying the Tax Exempt Rate in effect as provided herein (for payments due on the thirteenth day of each month through and including November 12, 2006 such amount shall be \$82,219.60); provided that upon the adjustment of the Tax Exempt Rate as provided herein on November 13, 2006 and November 13, 2011, the schedule of level monthly payments of principal and interest shall be recalculated based upon the principal amount of the Note then outstanding, the adjusted Tax Exempt Rate and the number of remaining months to the Maturity Date. Therefore, the amount of principal to be redeemed for the years ended December 31, 2006 through February 12, 2016 cannot be determined at this time.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2004

Note C - Bond Payable - Charlevoix Area Hospital - Series 2001(Continued)

Annual debt service requirements for the bond is as follows:

<u>YEAR ENDING DECEMBER 31</u>	<u>PRINCIPAL</u>
2005	\$ 580,751
2006-2016	<u>8,425,073</u>
Total	<u>\$ 9,005,824</u>

Note D - Loans Receivable and Payments Received Under the Bond

Payments required by the Nursing Home and the Hospital include both principal and interest. Only the portion of the payments attributed to principal is applied against the loans receivable.

Payments by the Nursing Home on the bond for principal and interest are due on the first day of each month, and the Hospital's payment is due on the thirteenth day of each month.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY

SCHEDULE OF INDEBTEDNESS - CHARLEVOIX NURSING HOME CORPORATION

for the year ended December 31, 2004

	<u>AMOUNT OF ISSUE</u>	<u>INTEREST RATE</u>	<u>ANNUAL MATURITY</u>	<u>OUTSTANDING AT DECEMBER 31, 2004</u>
Limited obligation revenue bond (Charlevoix Nursing Home Corporation) dated June 1, 1993	\$2,400,000	5.9	2005-2013	<u>\$1,462,962</u>

Commencing on February 1, 2000, the rate of interest was changed to the Four-Year Treasury Security Rate plus two percent, determined to be 5.1 percent per annum at the Determination Date. On January 3, 2005, the rate of interest again will be changed to sixty eight percent of the prime rate of the bond holder as of the Determination Date.

The amount of principle to be redeemed for the years ending December 31, 2005 through December 31, 2013 cannot be determined at this time.

The accompanying notes are a part of the financial statements.

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY
SCHEDULE OF INDEBTEDNESS - CHARLEVOIX AREA HOSPITAL

for the year ended December 31, 2004

	<u>AMOUNT OF ISSUE</u>	<u>INTEREST RATE</u>	<u>ANNUAL MATURITY</u>	<u>OUTSTANDING AT DECEMBER 31, 2004</u>
Limited obligation revenue and refunding bond(Charlevoix Area Hospital) dated November 13, 2001	\$10,000,000	4.6	2005 2007-2016	\$ 580,751 <u>8,425,073</u> <u><u>\$ 9,005,824</u></u>

On November 12, 2006 and again on November 12, 2011, the rate of interest will be adjusted to equal 98 percent of the then current yield on U.S. Treasury Securities with five years remaining until maturity.

The amount of principle to be redeemed for the years ending December 31, 2006 through December 31, 2016 cannot be determined at this time.

The accompanying notes are a part of the financial statements.